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**SUSTAINABLE LOCAL DEVELOPMENT PROJECT
OCTOBER 1, 2015 – MARCH 31, 2016**

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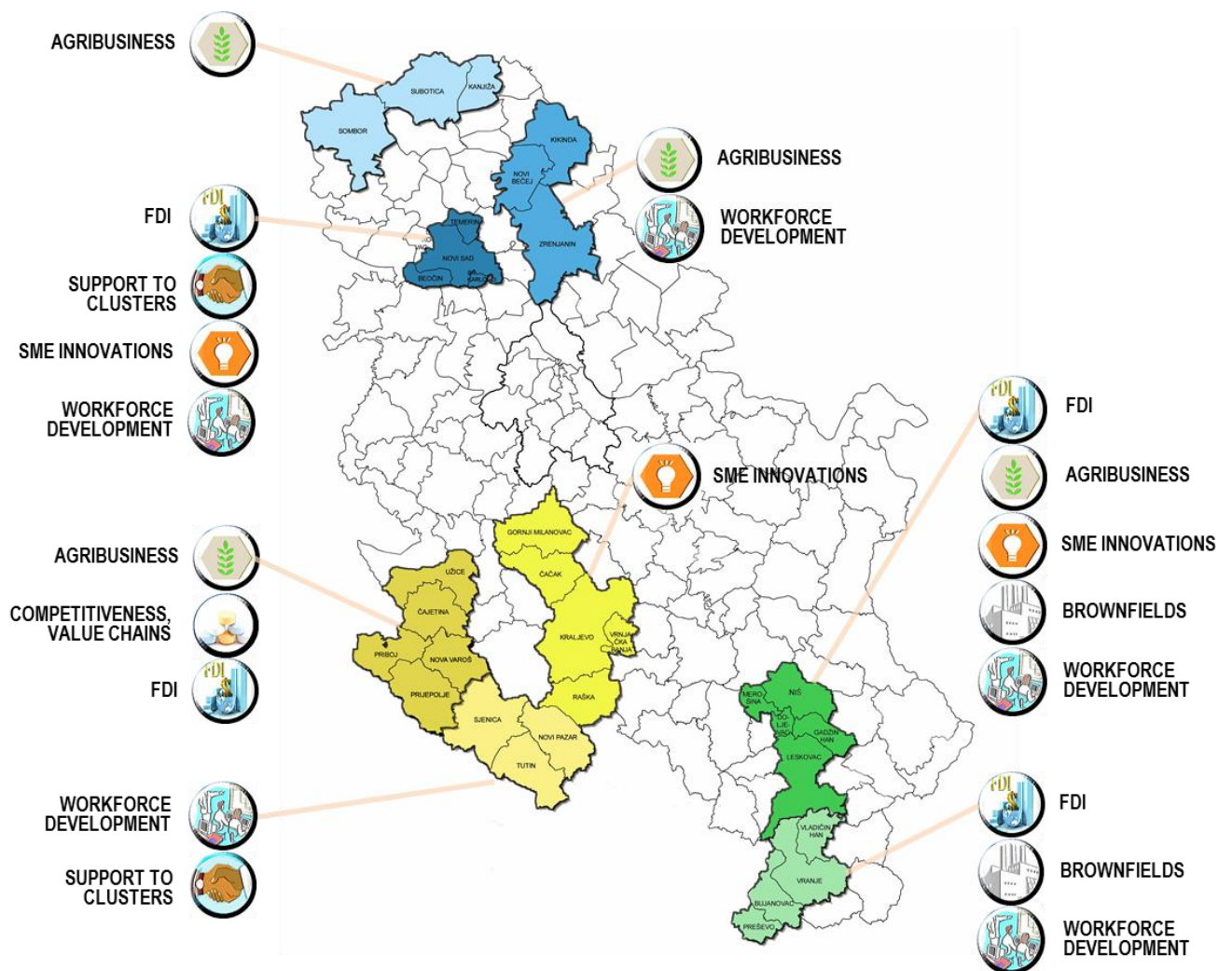
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ACRONYMS

AYES	Association of Young Entrepreneurs of Serbia
B2B	Business to business
BEE	Business enabling environment
BFC	Business Friendly Certification
CB	Capacity building
CIP	Capital Investment Planning
CMS	Customer Management Software
CSO	Civil society organization
DARD	Department for Agriculture and Rural Development of the City of Nis
EU	European Union
EU PROGRES	European Partnership with Municipalities
FDI	Foreign direct investment
FTP	Food Technology Park in Leskovac
GDS	Global Destination for Shoes and Accessories Trade Fair
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoS	Government of Serbia
Ha	Hectares
HoReCa	Hotels, Restaurants, and Cafés
IMC	Inter-municipal cooperation
IMCA	Inter-municipal cooperation area
IZ	Industrial Zone
LED	Local economic development
LG	Local Government (applies to a city or a municipality)
MAPs	Medicinal and Aromatic Plants
MoU	Memorandum of Understanding
NALED	National Alliance for Local Economic Development
NAPOR	National Association of Youth Workers
NARD	National Agency for Regional Development
NiCAT	Nis Cluster of Advanced Technologies
NCP	New Criteria Program
NES	National Employment Service
NFE	Non-formal education
NGO	Non-governmental Organization
NTFP	Non-timber forest products
PGI	Protected Geographical Indication
PMP	Performance monitoring plan
PPP	Public-private partnership
Project	USAID Sustainable Local Development Project
PUC	Public Utility Company
Q1	Quarter 1 (of FY 2016)
RCAD	Regional Center for Agricultural Development in Sjenica
RDA	Regional Development Agency
SCC	Serbian Chamber of Commerce
SCTM	Standing Conference of Towns and Municipalities
SDA/RAS	Serbian Development Agency
SEDA	Sandzak Economic Development Agency
SIEPA	Serbian Investment and Export Promotion Agency
SK	Smart Kolektiv
SLAP	System of Long-listed Advanced Infrastructure Projects
SME	Small- and medium-sized enterprise
STP	Cacak Science and Technology Park
STTA	Short-term technical assistance
TA	Technical assistance
VET	Vocational education and training
WG	Working Group
WP	Work plan

Map of Serbia: The Project's assistance in the areas of inter-municipal cooperation
 Goal: Add jobs by expanding the private business sector with demand-driven assistance.



Shared themes: agribusiness, FDI attraction, brownfields, support to clusters, SME innovations, workforce development.

1. INTRODUCTION

The FY2016 Semi-Annual Progress Report covers the October 1, 2015 – March 31, 2016 period of implementation of the Sustainable Local Development Project in Serbia (“Project”). The report is structured around tasks and activities presented in the FY16 Work Plan – the final year of the Project implementation. During this period, the Project focused on initiatives that expanded the private sector and created jobs in eight inter-municipal cooperation (IMC) areas (IMCs led by Subotica, Novi Sad, Kraljevo, Novi Pazar, Nis and Vranje, and to a lesser extent in IMC areas led by Zrenjanin and Uzice). The Project continued working with sector specialists to evaluate key sectors and provide recommendations that allow targeted sectors to increase their market share. With the extension of the Project until August 2016, efforts to link buyers to Serbian producers and to build value chains have intensified and focused on best opportunities for achieving impact. Activities have focused on building market opportunities and increasing the potential for growing the wooden furniture subsector of Serbia’s economy, in order to decrease unemployment and improve the country’s overall economy. Congruently, the Project has continued to support the private sector to produce modern and innovative products, while at the same time working with local governments as well as businesses to attract investment both domestically and through foreign direct investment (FDI).

2. PROGRESS DURING Q1 AND Q2 OF FY2016

Component 1: Inter-Municipal Cooperation Programming

Task 5b. Provide technical assistance and support through the incentive subcontracts and grants program with the special focus on municipalities to prepare and execute a minimum of twenty (20) inter-municipal economic development projects.

Activity 5.1.1: Assist Tutin IMC area to finalize operations of the collection center for herbs and to establish private public partnerships by improving the management capacity of the local partners, launching the organic certification process, and establishing initial contacts with potential buyers.

With Project support, Tutin developed a PPP concept for potential investors for the establishment of a Center for collection and processing of non-timber forest products (NTFP), i.e. forest fruits, mushrooms and medicinal and aromatic plants. The concept ambitiously envisaged production of a finished specialty food product – retail packaged teabags. The Municipality planned to offer a potential foreign investor land and a location permit for a processing facility, the first of its kind in the region. To assist Tutin in defining a proposed PPP concept in regard to their raw material supply capacities and market demand for NTFP products, the Project brought in Mr. Peter Furth, an international expert with more than 35 years of experience in this field. Several products showed high potential for collection and processing both from the supply and market demand side, to economically justify the proposed PPP concept. During the reporting period, the Project provided additional guidance in the process of establishing the PPP, such as preparing the drying facility and assisting partners in accessing additional funds from the EU Progres program’s grant scheme.

Upon establishing the drying center, three local entrepreneurs will start their own processing business, and add value to collected wild NTFPs. The picking season starts in August and some 100 pickers from the regional rural areas will benefit from the Center, as they will be organized and contracted for their services at defined amounts of collected materials and more profitable prices. In the long term, the Center will serve as a driving force for the development of an entire supply chain of skilled collectors and increased collection, processing, and sales of NTFPs from the IMC Area. Consequently, dozens of small family businesses are expected to invest in primary processing.

In February 2015, a representative of Agro-Tutin municipal enterprise accompanied Mr. Furth at the world’s leading trade fair for organic food, the Biofach Organic Food Fair in Nuremberg, Germany, to establish contacts with potential investors and identify more export opportunities for NTFP’s products. Potential investors emphasized that they look for locations with already developed, continuous, and stable local supply chains of adequately organized wild-product collectors and primary processors. To create conditions for investment attraction, Mr. Furth developed a business development plan with recommendations for Tutin to establish a drying processing facility within the municipally owned Agro-Tutin enterprise, to be ready for spring 2016. The local community determined that the best way for the region to take advantage of the exceptional resources it has in NTFPs is to establish a small to mid-scale center for collection and processing through an initial investment by Tutin’s local government.

Tutin has already identified available land and allocated \$62,000 in the municipal budget for the installation of a facility that will accommodate the planned processing and drying operations in accordance with Mr. Furth's recommendations. At the end of 2015, the municipal government of Tutin competitively selected a firm to clear and prepare the site for the Center's building, located in the industrial zone in Leskova village, next to the dairy facility - the first private investment built in the zone. In February 2016, a permit for the drying facility was obtained and the installation work began. The second public call for finishing works on the building was published, including a call for installation of a boiler for heating the facility and drying equipment. The primary investor and owner of the building is the municipality of Tutin. The completed building, with permits, will be rented to the Agrar-Tutin municipal enterprise on a long-term contract. After securing funding for the procurement of drying equipment, the municipality and Agrar-Tutin will lease the equipped facility under subsidized terms to local entrepreneurs who will be obligated to start collection and processing of NTFPs through a network of at least 100 local pickers. The initial processing operation should begin on a relatively small scale, and is scheduled to be in place during the coming crop season in the summer of 2016. In an effort to leverage funds for procurement of the equipment from other donors involved in the IMC region, the Project collaborated with Progres, an EU-funded economic development program in Serbia. In December 2015, Progres announced a grant scheme for agricultural cooperatives and associations to apply for provision of small-scale drying equipment for their storage/ drying facilities. However, Tutin could not use this opportunity since there are no eligible herb pickers' organizations capable of managing NTFPs processing operations and sales. In order to assist both sides, the Project prepared several possible legal models for ownership of the land, building and equipment, options for local private partners in processing operations, and criteria for selecting the Center's users. The Project also supplied Tutin with technical specifications of minimum processing equipment required for NTFP's prospective drying operations.

The Project will continue to support Agro-Tutin and the producers to establish business relations with buyers in the region and to learn buyer requirements for acceptable NTFPs. Depending on the progress Tutin makes in establishing the center, the Project's assistance will be directed at providing technical advice on the requirements to obtain necessary collection permits from the government and to initiate organic certification of the collection area. The Project will also provide technical assistance to the Agro-Tutin staff and stakeholders. Regrettably, the installation took longer than anticipated, and SLDP will have ceased activities prior to the facility's completion.

Activity 5.1.2: Ensure finalization of the accreditation process of the Subotica public health lab in order to enable the issuance of export certifications by supporting the preparation of all the necessary technical documents, the procurement of necessary lab chemicals and communication with the certification authorities.

The Project's goal in the Subotica-led IMC Area is to help increase the sale of agriculture products from the region by 10 percent. In May 2014 the Project delivered equipment to the Subotica Public Health Institute laboratory, upgrading the Institute's capacity and enabling analysis of regional food products. The laboratory now has the equipment and capacities to test for pesticides and pollutants in line with EU and other market regulations. Local farmers and food processors no longer have to travel to conduct proper testing of their crops, thus decreasing the cost of analyzing and certifying their food as safe for export. After a rigorous evaluation process and several control audits conducted by the Accreditation Body of Serbia, accreditation for new food testing services was finally granted to the Institute's laboratory during June 2015. Local farmers and food processors are able to receive the Institute's new accredited analysis and use it as official proof that their produce meets export requirements of food safety and quality. Following accreditation, the Institute organized several promotions of testing services, and offered a 15 percent lower price to registered farms and processors for a period of three years. According to initial estimates, the laboratory will save approximately \$30,000 in testing costs for local food producers.

During the past six months, 82 pesticide residue analyses have been conducted. Testing was mainly done for 18 export-oriented agribusiness and food-processing firms from Subotica region and nearby districts, mainly producers of frozen, dried, and canned fruit and vegetable products. The Institute has also been providing testing services to importers of raw materials and ingredients for further processing in the IMC Area, like various cereal mashes made of rice, oats, corn, wheat, and barley. The certification body for organic production from Subotica, "Organic Control System", used the Institute's laboratory services to test its clients' products and enable sales and export of organic crops. Among the few farmers who used the testing services, cabbage growers were the first ones. However, more farmers used the new testing services indirectly, such as suppliers of raw materials and fresh produce to local food processors and exporters. In the coming period, with Project assistance, the Institute

will continue to promote its new services, as they are unique to the entire region, including the neighboring Zrenjanin-led IMC Area. In the first week of June 2016, as part of the 10th International and Regional Trade Fair in Subotica, the Institute, in cooperation with the City of Subotica, will organize a presentation of test results to food processors and other related stakeholders. The purpose of the presentation will be to provide information on contamination levels of produce in the region, including information on the most critical chemicals and most frequently contaminated products.

Activity 5.1.3: Support the implementation of sustainability strategies for the Food Processing Support Center in Nis by further developing the web portal, ensuring the city administration's commitment to the Center and procuring a drying machine.

The regional Food Processing Support Centre was established in 2013 by five local governments from the Nis-led IMC Area, which includes the cities of Nis and Leskovac, and municipalities of Merosina, Doljevac and Gadzin Han. The Center aims to improve institutional support and coordination among the IMC Area's key stakeholders, support food processors in identifying new profitable market possibilities, and help agricultural producers adjust their production to better meet the needs of processors and buyers. Despite the Project's efforts to assist with the establishment of the Center and provide fruit and vegetable drying equipment, the city government of Nis did not adopt necessary urban planning documents that will allow the Center's operations.

In April 2015, the Project, in partnership with agribusiness consulting company Agrozem Ltd. and the City of Nis Department of Agriculture and Rural Development (DARD), publicly presented and launched a new web-portal, "Grow South" (www.rastjuga.rs). The site, a part of the Food Processing Support Center (FPSC), serves as an information database and focal point in the provision of services to local farmers, food processors, buyers of agro-food products, and potential investors in food processing and agriculture. In addition to the five IMC Area governments, the Center's scope of work was expanded to include three additional municipalities (Svrljig, Razanj, Aleksinac) in the database due to their interest in the activity. During the reporting period, the Project monitored whether web portal features and database are fully utilized and regularly updated by FPSC staff. Despite the interest shown by local agribusiness suppliers to present their own capacities, the promotion of the web portal and its features by the FPSC and participating LGs was poor. The Project provided a set of recommendations to FPSC staff and website administrators on how to improve performance and upgrade the web tool. One year after launching, the website is updated with newly collected data from the eight municipalities, and maintained by the FPSC staff.

In 2015, the Project and DARD started activities aimed at establishing a Service Processing Center, which would serve as a fruit/vegetable drying center for small-scale farmers in Nis. After finding a suitable location, DARD, which is financing all construction work, selected and hired a contractor for the reconstruction/renovation of the building of the future Center. Reconstruction of offices, drying and training facilities were completed during the reporting period. In order to prepare on time, the Project published a request in the spring of 2015 for proposals for the fruit and vegetable drying equipment, and selected the best suppliers. However, under the current General Urban Plan (GUP), the building is listed as a facility where manufacturing is explicitly prohibited, and drying equipment cannot be installed. In June 2015, the Project requested that DARD and the City of Nis complete changes of the current GUP to allow manufacturing in the building of the planned Center. After several iterations of this request, the Project set a final deadline of December 2015 for the city government to adjust the urban planning documents to allow manufacturing in the building. In November 2015, USAID, with Project assistance, prepared and approved the Environmental Review Checklist and Environmental Mitigation and Monitoring Plan for this activity.

During the reporting period, the Project has been in regular contact with DARD to check any development on the GUP issue and provide assistance if needed. To date, the documents were not changed and there is no sufficient proof that the GUP will be changed in time for the Project to take further actions. Therefore, in February 2016 the Project discontinued the activity. DARD confirmed their determination to equip the drying Center and start operation before the 2016 crop season, despite the absence of Project's funds. They gratefully recognized the major role of the Project in helping them to design the concept of a Service Processing Center for small-scale farmers, and are committed to see the activity through to the end. Once equipped, the Center will be leased to selected farmers through a public competition, and used by the winners to add value to their crops through the drying process.

Activity 5.1.4: Support the implementation of a sustainability strategy for the Technology and Food-Processing Park in Leskovac by assisting the member companies to fully utilize the product development processing equipment provided by the project.

The Project's goal in this IMC Area is to achieve a 15 percent increase in sales of processed food products. To achieve this goal and add jobs to the region, Nis IMC must develop its agribusiness food processing potential. The Project supported the establishment of the Product Development Research Pilot Plant at the Technology and Food-Processing Park (TFP) in Leskovac, as a way to develop the region's food-processing potential. The Leskovac TFP is a private-public partnership (PPP) of seven food processing enterprises, Leskovac, and the Faculty of Food Technology, whose members wish to develop cost-effective and technically feasible new products to meet the challenges of the marketplace through application of new technologies. In 2014, the seven TFP enterprises increased revenues by 7% percent and number of employees by 19%. In 2015, the TFP enterprises increased revenues by 3.7% and employment by 4.4%.

In July 2015, Leskovac TFP opened its new product pilot plant, co-financed by the Project. This pilot plant curbs production costs by allowing production of small sequences of test samples for new products. The new facility can support all stages of product development, from idea generation through concept development, to the production of small trial samples. The pilot plant also provides product development services to third party food processors that are not members of TFP, and is already used for workforce development by students and post graduates from the Faculty of Food Technology in Leskovac as part of an internship and innovation voucher award program.

TFP has been carrying out business-to-business meetings with potential buyers from Serbia and neighboring markets, using marketing materials developed with Project support to back up new product sales. Based on the feedback received from buyers and distributors, TFP has modified its retail packaging design to accommodate new requirements and lessen costs. Top Food products in the newly designed packaging will be distributed for sale in the next quarter. The TFP is currently preparing product packaging to target lucrative markets in the EU.

TFP continued the delivery of new Top Food products earlier contracted during the summer, reaching \$115,000 of sales in the last six months. TFP member firms also sold newly developed products worth \$450,000 in the same period under their individual brands. Development of new products has been constant in the reporting period, and five new workers have been employed by the pilot plant. The majority of work during this period has focused on creating the best recipes and formulations for different types of honey cakes (low fat, integral, glazed, vitamin rich, chokeberry and cranberry flavored), ice cream cones, and various bakery products (integral, oat, rye, toast bread, American bread, baguettes, pastry). TFP contracted the food processing firm Pertu from Pozarevac to provide consulting services for the new product development, mainly for product packaging and experimental production.

The TFP has also partnered with the Technology Faculty from Leskovac and SME Agency from Sofia, Bulgaria, to develop a project proposal for the EU Bulgaria–Serbia IPA Cross-Border Cooperation Program. These partners submitted their proposal in mid-January, and in March completed the administrative verification and confirmed the project proposal's and applicants' eligibility. The final approval process is expected to be completed in April. The goal of the project is to found a food sector business academy, in which the pilot plant will have an important role as a training base for the food technology students and professors from the region, and coach start-up firms from Serbia and Bulgaria regarding new product development. The project will work with students on both sides of the border to strengthen their entrepreneurial potential for development of the food sector. The planned budget is 190,000 EUR, and the project duration is 18 months. As a result of these various activities, TFP enlarged its membership, with five food-processing companies and a Higher Professional Business School joining the consortium. An official accession ceremony and contract signing is scheduled for April 2016.

5.1.5: Assist the Regional Center for Agricultural Development (RCAD) in Sjenica to provide product testing laboratory services

In this reporting period, the Project continued to assist the Regional Center for Agricultural Development (RCAD) located in Sjenica to obtain its official accreditation for the laboratory's milk and meat testing services. Once accredited, the laboratory will serve two groups of beneficiaries from the Novi Pazar IMC region: around 70 registered milk processors and producers of traditional dairy products from the Pester area (small and medium-sized dairy enterprises and dairy farmers' artisan dairies), and approximately 1,500 registered dairy farm

households. Pester dairy farmers are increasingly registering their own artisan dairies to meet requirements of the Food Safety Law, which was adopted a few years ago. Therefore, the number of laboratory service users from the milk processing side will likely be higher than the currently projected 70 entities.

The RCAD was established as a joint project of the Novi Pazar, Tutin, and Sjenica local governments, with funding from the EU Progres Program and Czech Development Agency. The RCAD was founded to provide various consulting services to local farmers and agribusinesses. In 2014, the Czech Development Agency equipped the milk and meat testing laboratory, and the laboratory became staffed and fully operational in 2015. During 2015, the Project, with partner Taurus Agro Consulting, completed a series of trainings and technical assistance for laboratory staff to improve their capacity and help the RCAD gain accreditation for milk and meat testing services. This would allow the laboratory staff to conduct microbiological and chemical tests and provide farmers and processors with recommendations for quality improvement. In September 2015, SLDP further helped the RCAD calibrate testing equipment and obtain equipment certificates necessary for laboratory accreditation. As a result, local staff can now independently carry out the entire process of accreditation for testing services, which is expected in June 2016. A fully accredited laboratory will be able to provide local farmers and processors with the necessary certificates, thus assisting in the sale of their products.

To ensure smooth implementation of accreditation requirements and timely laboratory certification, the Project engaged a local backstopping expert to assist the laboratory staff during critical phases of the accreditation process. During this period, the expert conducted two three-day internal audits of the laboratory in Sjenica. The first audit in November 2015 ensured that the system is prepared for external quality control testing through an inter-laboratory comparison (ILC). The Project's consultant conducted the second backstopping audit in January 2016 to check the application of proposed corrective measures for non-conformities identified during the first audit, and to verify that the entire system and documentation of the laboratory are in compliance with ISO standards. After these audits, RCAD staff, with the help of the local expert, applied to the Accreditation Body of Serbia (ATS) for the final certification of the system in February 2016. In March, ATS experts conducted a preliminary audit, thoroughly reviewing documentation and procedures of the laboratory's ISO quality management system and ordering minor corrections. By the end of April 2016, RCAD will send its report to the ATS regarding the corrective measures it took and the final audit is expected during May 2016. The laboratory anticipates receiving official accreditation for milk and meat testing services in June 2016.

Prior to final laboratory accreditation, RCAD needs to finalize ILC testing with the referential laboratories in EU, as part of the external quality control. The competence of the laboratory will be confirmed if a series of tests match the same tests completed at an accredited laboratory in the EU. So far, RCAD has conducted successful ILC testing with the laboratory of the Agricultural Faculty in Zagreb, Croatia, for 17 testing methods of dairy products such as cheeses, yogurts, and sour creams. ILC testing of raw milk is currently in progress with the laboratory in Zagreb, while testing of meat and meat products will be completed soon with a referential laboratory in Netherlands. The chief of the RCAD laboratory has been trained in Zagreb on how to conduct the manual microscopic somatic cells counting in the laboratory.

While working on the laboratory accreditation, the RCAD in Sjenica has also been preparing to provide testing services on the Serbian market. The RCAD signed a business and technical cooperation agreement with the milk testing laboratory of the Faculty of Agriculture in Novi Sad, and the same agreement will be signed soon with the milk testing laboratory of the Veterinarian Institute in Kraljevo. The laboratories will serve as backups for each other in case of malfunctioning laboratory equipment and inability to conduct tests for clients. In addition, they will collaborate to offer testing services to buyers, maintain their accreditations, and conduct external quality controls.

Activity 5.1.6: Assist the Novi Pazar jeans cluster to implement a viable export-led growth strategy by developing a new marketing strategy based on the ozone-finishing equipment; introducing better production pricing methods, facilitating new contacts with potential buyers and helping the local textile and design vocational technical school to tailor their curriculum to meet the needs of the local employers.

In 2015, the Project changed its approach for assisting the denim sector in Novi Pazar. Instead of focusing largely on trade fairs as was done in 2014, the Project brought potential buyers to its beneficiaries. The Project previously engaged an international social media specialist for the Russian-speaking markets, Ms. Kseniya Sydorkina, who provided recommendations on improving Novi Pazar IMC Area denim manufacturers' online presence on these markets. During the previous reporting period, Ms. Sydorkina visited IMC Area companies and presented a newly

created website www.fashionserbia.com. The new website presents six local denim companies (Bros, Brug, Denistar, Maxers, Clasic, and Exact jeans) to the larger Russian-language market. The site offers the latest trends and clothing models from all six businesses, contains a blog section, and allows potential buyers to contact each company. During the reporting period, a Turkish retail company enquired whether the Novi Pazar denim producers would want to produce for a different brand. The Project will continue to monitor the development of this deal.

The Project also supported three Novi Pazar–led IMC Area denim companies, Brug, Classix and Exact Jeans, to open a joint retail store in Belgrade’s ‘Stadion’ Shopping Mall, and contributed to the selection of a suitable venue, establishment of the joint brand called the Jeans Factory, and furnishing of the store which reflects the new brand. In 2015, Jeans Factory reported a total sales of \$155,000, while in the first three months of 2016, the store made monthly sales of \$41,000 on average, which represents a 25% increase if compared with the same quarter in 2015. During the last three months, the store served 1,340 customers every month, each spending approximately \$30. On December 25th, the Jeans Factory celebrated its first anniversary, with special sales for the day.

During 2015, with assistance from international sales expert Mr. Guy Carpenter, the Project and denim manufacturers moved forward with the concept of joint utilization of an ozone-finishing facility as a way of distinguishing themselves as an ecologically-conscious brand on a competitive global jeans market. At the end of June 2015, with Project support, six well-known Novi Pazar denim manufacturers which employ more than 400 workers and export to the Russian-speaking and regional Western Balkans markets, established a denim association called Pro Denim to jointly use the ozone-based technology for jeans finishing. The ozone finishing and washing technology machine will help expand their exports and ecologically upgrade the IMC Area’s denim production. The new, environmentally-friendly equipment will create a competitive advantage for local jeans producers and allow them to target Western European markets known for ecologically-conscious buyers.



On December 18th the US Ambassador to Serbia, Mr. Michael Kirby, with the Mayor of Novi Pazar, Assistant Minister of Economy, USAID Mission Director, as well as traditional USAID partners in Novi Pazar, the Vocational School for Textile and Leather Design, RDA SEDA and the members of Pro Denim association opened the ozone-finishing facility. During the ceremony the speakers agreed that this was a big step forward in developing denim production in Novi Pazar and improving the overall competitiveness of local producers, especially in competitive export markets, as well as promoting the new technologies and business approach that minimizes the industry’s overall environmental

impact. The environmental friendliness of the ozone-based jeans production will be utilized to draw attention to Novi Pazar as a potential sourcing location, primarily for customers in Europe. Manufacturers’ competitiveness will be built on quality and ecofriendly production, rather than price competitiveness.

Two technical representatives of the equipment vendor delivered training to the ProDenim staff in January. Their procedure also included checking the system, calibrating, and testing, which was an essential step in preparing the complex equipment for safe handling. The Pro Denim partner companies (Denistar, Brug, Classic, Maxers, Bros, Exact Jeans) had a chance to test treatment effects on their jean samples. In February 2016, the Ozone facility became operational, with one technical person trained to run the equipment. All ProDenim members started to experiment and develop new washing methods, while three of them already adopted new production procedures and treated approximately 6,000 pairs of jeans. ProDenim agreed to establish cooperation with the Vocational High School, so that students will learn about new technologies in jeans wear manufacturing, as well as about the overall environmental impact associated with this denim finishing innovation.

In November 2015, Mr. Guy Carpenter initiated contacts with potential clients at the Premiere Vision fair in Barcelona, a global trade show for fashion professionals. He met with several denim companies in order to organize an inward buyer’s mission to jeans manufacturers in the IMC area. His most significant meeting was with the Director of Business Development Denim at Lenzing Fibers, and the VP of Sales at the International Textile Group - Cone Denim Division. In March 2016, Mr. Carpenter provided advice to ProDenim producers

about joint utilization of the ozone facility and implementing it into a marketing strategy towards potential EU clients. He also addressed the opportunity for Novi Pazar producers to reach new markets and improve visibility within the global market. Mr. Carpenter will provide the contacts of potential buyers that expressed an interest in sourcing in Serbia and assist with arranging buyer-manufacturer meetings during the Premier Vision fair in Paris in September 2016.

In February 2016, representatives of the Swiss Import Promotion Program SIPPO, funded by the Swiss government, visited the Ozone facility, looking to support some of the Novi Pazar jeans producers by helping them exhibit their offer at the Premier Vision trade fair in Paris, France, in September 2016. SIPPO representatives were interested in the ozone-finished products due to their potential for reaching ecologically-conscious buyers in Europe. SIPPO tentatively agreed with three of the ProDenim producers to present their distinctive products in Paris.

Besides the ProDenim members, the Project assisted SIPPO in reaching a few other Novi Pazar-based textile SME's with non-denim product groups (i.e. shirts, underwear). SIPPO is implementing its program throughout the region (Serbia, Macedonia and Albania) in a few different sectors and product groups. SIPPO will select its Paris fair participants by the end of May. The Project will continue efforts to link international corporations with local businesses in the coming period.

Activity 5.1.7: Increase the business-oriented focus of the 3D ImPuls Center to ensure the Center's sustainability and to increase innovation through wider exploitation of this unique resource by SMEs by increasing the awareness of the Center's resources within the business community and establishing contacts with new customers.

The Project has worked with the ImPuls Center, a part of the Faculty of Mechanical Engineering in Kraljevo, to assist SMEs in the region to apply innovative solutions and become more competitive. The Center provides 3D scanning and printing services using advanced design technologies for a wide range of manufacturers of metal and plastic products, from factories and industrial designers, to art studios and scientific institutions. In former periods, the Project engaged a consultant to help the Center commercialize its services with procedures and tools to grow and meet increased demand. Since the Project began working with the Center in 2013, the number of orders completed has increased from 25 in 2013 to 63 in 2014. Additionally, in 2015, the ImPuls Center garnered \$62,000 in business transactions. In the first three months of 2016, the Center completed 23 orders, valued at \$11,000. During this reporting period, ImPuls Center also became a member of the Vojvodina Metal Cluster, after SLDP introduced the Center to the Cluster in previous months.

Activity 5.1.8: Increase the competitiveness of shoe producers in the Vranje and Novi Pazar IMC areas in order to help them grow and create new jobs by increasing their production efficiency and the quality of their products, facilitating contacts with new potential buyers, and further improving the website developed by the project to promote the shoe sector in Serbia.

To help expand the footwear sector, the Project continued working with international footwear sector expert, Mr. Jordan Saliman, who continued to deepen business links with international buyers. Earlier in 2015, the UK-based company French Sole visited Serbian shoe manufacturers. The management of this large producer of ballerina-flat shoes for women chose Stefi Komerc as a potential partner through which to expand production to Serbia. Stefi Komerc completed several sample models, and by the end of December 2015, the British company's executives were satisfied with the quality and agreed to advance negotiations. At the time of writing, the French Sole's initial purchase order of 1,500 pairs of 3 models of fold up ballet shoes, valued at \$33,000, is in pre-final stage of approval for actual production. Prior to the meeting with French Sole, scheduled for late April, the Project expert will visit Stefi Komerc to examine the pilot production line of samples and discuss the negotiation.

The Project continued to promote cluster associations of Novi Pazar and Vranje IMC Area's by strengthening communication between the shoe manufacturers. On the recommendation of Mr. Saliman, the Project will organize mutual study visits and bring together managers of two shoe manufacturers, Herc from Vranje and Antilop from Novi Pazar, to discuss cooperation opportunities in production of fully finished shoes and/or shoe uppers. The first visit to Novi Pazar is planned for late April 2016.

In the Novi Pazar-led IMC Area, following initial contacts made at the GDS Trade Fair, Sorba's Shoes was in pursuit for socially and environmentally responsible companies able to start a new shoe line for sale on their

website. A start-up company still in the brand development process, Sorba's Shoes is a young brand focused on marketing and sales in Germany. Sorba's Shoes contacted the Project representatives and signed a five year general contract which provides a maximum amount of order per month (up to 1,000 pairs). During this reporting period, Sorba's Shoes had an initial order of 200 pairs of shoes.

The Project also examined opportunities for upgrading the serbianshoes.com website. It originally served the purpose of promotion during GDS trade fairs, where nine shoe producers from Novi Pazar and Vranje IMC areas presented their products. However, the website's structure does not allow for more dynamic interaction and content management, and any functional upgrade would require a completely new web design, which cannot be financed by the Project's resources. The website is listed in the top global web searches for "Serbian shoes" as key words, and it has a value. The Serbian Chamber of Commerce and two associations of shoe producers, NP Shoes from Novi Pazar and Kostana from Vranje, are interested in taking over the web domain and existing web content, which will be one of the Project's final activities.

Activity 5.1.9: Assist the partner furniture producers in the Vranje and Novi Pazar IMC areas to become more competitive in order to enable them to become suppliers to international manufacturers and penetrate new markets by helping them to increase their productivity and standards, and facilitating contacts with new potential customers.

In the period 2013-2016, the Project has assisted eight furniture producers in Novi Pazar, Kraljevo, Užice and Niš. In 2014, these companies increased sales by 13% and employment by 4%.

During this reporting period, the Project held a Business-to-Business (B2B) event at the Belgrade Furniture Fair in November 2015. The Project also provided recommendations on improvements needed to reach quality standards required by international buyers and organized a best-practice study visit to a Bosnian company Nova DIPO – an IKEA supplier. It also coordinated the first data collection of wood resources and wood processing capacities in 32 Serbian municipalities. In March 2016, in conjunction with the Progres program, the Serbian Chamber of Commerce (PKS) and the Development Agency of Serbia (RAS), the Project facilitated signing a Letter of Intent with 46 local governments from the south-east and south-west Serbia at the forum "Positioning Serbia as a wood furniture sourcing country." The signees are committed to actively participating in the revival of the production of solid wood furniture and intensified action planning for the wood furniture sector. The Project also organized regional expert consultations with representatives of 40 wood and furniture producers from 25 municipalities and assisted five Serbian companies in B2B contacts at the IMM Cologne Trade Fair.

B2B event at the Belgrade Furniture Fair: Furniture manufacturers in Serbia benefit from such trade fairs, as the fairs attract European buyers who are looking to replace China as a source, given the challenges of sourcing there, the Euro's decline in value, and China's internal inflation. A B2B furniture event at the fair enables Serbian furniture producers to find new buyers and explore new markets. In November 2016, the B2B event will be held during the entirety of the furniture fair, enabling the Belgrade Furniture Fair to grow and become a Regional B2B event in the years to come. Prior to the fair, the Project held three trainings on "Negotiations and Professional Selling Skills" for Serbian furniture export-oriented companies and exhibitors at the B2B Fair. The training sessions took place in October, 2015 in Belgrade, Novi Pazar and Vranje. A total of 23 representatives from 18 furniture companies participated in the trainings. The training sessions were designed to outline the steps a company can take to prepare for buyers, including realistic problem-solving case studies with potential buyers.

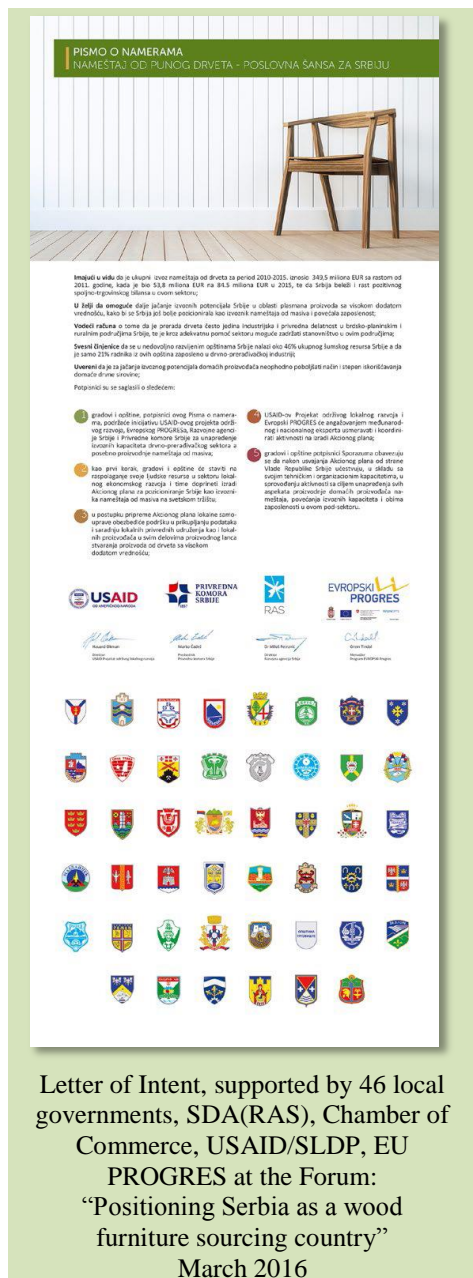
Other B2B activities: Following the B2B initiative in Belgrade, the Project supported the attendance of several furniture producers at the IMM Cologne Trade Fair in January 2016. The Project's furniture expert Jeff Baron primarily assisted the Project's partner company Atlas in pursuing the opportunity to supply furniture to a German company. During the meeting, the German company disclosed that business had indeed improved and they continued to be hopeful that they could begin working with Atlas. Besides Atlas, Serbian manufacturers Boreal, Cimo, Ginko and ExtraForm also participated at the fair and met top executives of a number of major global furniture manufacturers and buyers to discuss opportunities for cooperation. The Project also signed an MoU with the German Chamber of Commerce to implement a program for the wood furniture industry in Serbia, to be held in the second half of 2016 under the auspices of the Federal Ministry for Economy and Energy of the Federal Republic of Germany. This activity will include the participation of a German business delegation in a conference, a visit to the Furniture Fair in Belgrade, establishment of contacts with Serbian businesses and institutions, and study visits to Serbian companies and institutions.

Study visit: The Project, in cooperation with the world's largest furniture retailer, IKEA, organized a one-day study visit to the Nova DIPO Company in Bosnia. Nova DIPO is a large manufacturer of solid wood chairs exclusively for IKEA. The study tour provided Serbian furniture entrepreneurs with a look at how a world-class furniture manufacturing company is equipped, organized and managed. The trip further served to introduce representatives of Serbian companies to examples of best practices that can be transferred to their own facilities in order to fulfill the quality standards of international retailers like IKEA. Over the course of the reporting period, the Project's furniture expert has worked on strengthening cooperation with IKEA by 1) ensuring that all relevant, central Serbian stakeholders (SIEPA, Serbian Chamber of Commerce, Belgrade Fair, etc.) are acting in a coordinated manner to help IKEA to meet its sourcing needs, and 2) assisting IKEA's Serbia Business Development Manager and technical staff in reshaping IKEA Serbia's approach to and communication towards Serbian furniture manufacturers as potential vendors. In particular, expert support was provided through IKEA's participation at the Furniture Fair and post-fair follow up activities.

Roundtable discussion: In addition, the Project, in cooperation with SIEPA and EU Progres, conducted a roundtable discussion about the missed opportunities in Serbia for wood furniture production and international sale. The event gathered 61 government officials, national agency/institution representatives, municipal officials, and diplomatic corps members. The attendees heard expert analyses on the commercial potential of efficient use of Serbia's forests to produce value-added wooden furniture. Post-roundtable activities included the development of a wood furniture Action Plan, to be conducted through a bottom-up approach and led by local government officials. During the reporting period, the Project initiated the development of the Action Plan for the wood processing sector and furniture production sub-sector. The goal of the activity is to position Serbia as a source of solid wood furniture, and is dependent on the improvement of production processes and the commercialization of wood resources.

Data collection: During November and December the Project team developed a template for collecting data on wood resources and wood-processing capacities at the local level. Templates were structured to collect data on available wood resources and on active wood furniture producers, including data on workforce and vocational schools. In February, thirty-two participating local governments delivered data on forest resources, the status of the sector in their territories, and available workforce in the sector.

Regional meetings with wood processors: Findings from the analysis were used to conduct five regional meetings with 59 participants from 40 wood manufacturers and representatives of public institutions. The regional meetings were organized in Nis, Zajecar, Uzice, Raska and Belgrade for the purpose of discussing bottlenecks and possible solutions for increasing the production and export of globally competitive wood furniture.



Letter of Intent, supported by 46 local governments, SDA(RAS), Chamber of Commerce, USAID/SLDP, EU PROGRES at the Forum: “Positioning Serbia as a wood furniture sourcing country” March 2016

Forum and Letter of Intent: On March 3, 2016, in partnership with the European PROGRES Program, Serbian Chamber of Commerce (PKS) and Serbian Development Agency (RAS), the Project organized a forum “Positioning Serbia as a wood furniture sourcing country”. Representatives of 16 local governments (Cacak, Gadzin Han, Kucevo, Kursumlija, Majdanpek, Novi Pazar, Prijepolje, Raska, Tutin, Uzice, Zagubica, Knjazevac, Cajetina, Kraljevo, Bajina Basta and Ivanjica), Zlatibor District, Srbijasume, Belgrade Chamber of Commerce, Belgrade Science-Technology Park, German Chamber of Commerce, Capital Advisor Ltd. and two wood-processing sector companies, domestic and international experts, gathered to assess the potential of the industry and determine ways to increase the competitiveness of Serbian producers. Participants emphasized the need to shift the industry focus from timber and semi-processed to high-added value, final products. On the policy level, state institutions need to ensure a favorable legal and financial environment for sector companies looking to increase their exports and create new jobs. At the same time, public enterprises should enable better, more efficient use of national wood resources by giving priority to highest value-added manufacturers and exporters. At the forum, USAID/Serbia Office of Democratic and Economic Growth Director Laura Pavlovic, together with partner donor European PROGRES Program Manager, presented representatives of local governments with the Letter of Intent, signed by officials of PKS, RAS, European PROGRES and USAID SLDP, to confirm the commitment of national and international stakeholders to growing the wood furniture sector in Serbia. The forum was initiated by mayors of Serbian municipalities who participated in a SLDP-supported roundtable “Business opportunity for Serbia: Wood furniture”, in November 2015.

Wood Sector Action Planning: The Project intends to finalize an Action Plan for the wood furniture sector by the end of May, encompassing all the short- and long-term measures needed to improve the production of local furniture producers, increase export, and grow employment in this industry. The Project is implementing this activity in cooperation with the EU Progres Program and over 20 local governments. To be able to develop an Action Plan, the Project coordinated data collection on forest resources, the state of the economy in the sector, and the available workforce in the sector. For data collection, the Project invited additional

local governments outside of SLDP’s original area of activity. Two engaged wood and furniture experts, Professor Branko Glavonjic and Jeff Baron, will participate in the event aiming to promote the goals and steps of the Plan. While the Professor Glavonjic’s task will be to provide guidance on better utilization of raw material, Mr. Baron will present company-based measures for sector improvement. In addition, Mr. Baron will have one-on-one meetings with selected hard wood furniture producers and national forest/wood stakeholders in May.

Activity 5.1.10: Increase the ability of the management of the Vojvodina Metal Cluster to help its members to meet international standards and penetrate international markets through training in customer responsiveness and facilitating contact with new potential clients.

The Project has continued to work with the Vojvodina Metal Cluster (VMC), which includes more than 116 small and medium-sized metal producers with access to foreign and local markets. During the reporting period, VMC expanded its membership base by promoting and expanding membership in SLDP’s other IMC areas, particularly Cacak. The Project’s expert, Mr. Richard Danicic, identified metal anchor firms that could become members of VMC and help improve the domestic value chain in the fabricated metal sector. As part of this effort to improve value chain interaction with the participation of domestic anchor firms in Cacak, Mr. Danicic contacted ultimate buyers such as Bosch and Siemens, together with Cacak companies Unimet and Unipromet, to bring all value chain opportunities together in a meeting sponsored by VMC. This work on value chain development continues.

Task 6. Attract new investors, both domestic and foreign, to yield substantial investment, revenues, and employment as recognition of the existing IMC area partnership and area-based development benefits. During the FY16, limited support necessary to leverage and sustain the project's previous activities will be provided to partner local governments or other key national stakeholders to attract and support new and existing investors.

Activity 6.1.1: Provide follow-on support to Local Economic Development (LED) Offices in the partner 32 municipalities in developing strategies for potential and responding to interested investors, as well as, establish and maintain communication with GoS level institutions.

During the reporting period, the Project was forced to postpone activities related to attraction of investment and GoS level institutions as it awaits the establishment of a new Serbian Development Agency (SDA), proposed in the Investment Law. In November, the Project approved a revised catalogue of Serbian investment success stories for five fast-growing sectors: metal/electronics, agriculture/food, construction, information technology and textile/leather. The stories serve as examples of best practices for investing in Serbia and promote benefits such as: customs free access to markets with over 800 million customers, a skilled workforce, well-developed network of suppliers, and ideal location for just-in-time production due to the proximity of EU market. The catalogue will be distributed to various Serbian consulates and partners that promote Serbia as an investment location, such as the Serbian Development Agency (SDA), Vojvodina Investment Promotion Fund (VIP) and National Alliance for Local Economic Development (NALED).

The Project's activities with individual municipal areas in this period were as follows:

- With Project assistance, Vladicin Han local economic development officials updated their database of existing companies, new investors, as well as brownfield and greenfield locations. LED Office representatives also learned how to upgrade their promotional materials. The Project's technical team helped the municipality to complete the transfer of ownership of the bankrupted company, Sloga, and reach an agreement with the Turkish Teklas Automotive Company to open a new factory. The company, specialized in the production of rubber parts for automotive industry, is planning to invest \$12 million in reconstruction of facilities and employ 400 workers in a long run. Initially, Teklas plans to employ 100 workers and begin with operations in April 2016.
- Subotica Local Economic Development (LED) Office approached SLDP, asking for assistance in defining key elements for an international tender for new investors interested in Palic lake tourist infrastructure development. After a thorough research of the relevant legal framework, examples of previous undertakings and best practices, SLDP provided a set of recommendations and suggested a sequence of steps to be taken in order to successfully call for investors. Subotica LED Office representatives prepared the tender documentation, based on Project's guidance.
- During this reporting period, the City of Kraljevo used recommendations from the pre-feasibility study for industrial zone "Sportski Aerodrom Kraljevo" as a basis for improving conditions for doing business in the zone. They developed a set of technical documentation for infrastructure development and applied for funding to the Ministry of Economy's Support Program for Development of Business Infrastructure in 2016. In addition, promotional material that was created through the Project's FDI coaching sessions and mentoring program is now finished and posted on the official City's web site, and has been distributed by the City to the Canadian-Serbian Business Association for further promotion.

Activity 6.1.2: Provide continued guidance and support for the design and implementation of a foreign direct investment monitoring and evaluation (M&E) system by organizing training for central and local government officials and chambers of commerce and developing a concrete strategy for M&E together with these entities, Activity 6.1.3: Improve the capacity of LED offices in the 32 target municipalities to collect and manage the data needed to support business growth and investment attraction by developing a concrete set of recommendations for each of the relevant entities regarding the collection of data, and by providing training for these entities on productive utilization of this data.

As with investment activities, the Project has thus far been unable to perform tasks related to developing a Monitoring and Evaluation (M&E) framework due to the pending creation of Serbian Development Agency (RAS). RAS still has not become fully operational (all staff are hired based on temporary contracts valid for three

months). It is still unclear if this new Agency will prioritize the monitoring and evaluation of FDI projects on its agenda.

The Project continued to work on FDI activities, following up on investment missions implemented with partners of the Serbian Chamber of Commerce and Confindustria. During this reporting period, two German investors showed interest in assessing Serbia as an investment destination. The Project technical staff continued to provide support to LEDOs in improving marketing materials and in strengthening of local capacities for FDI attraction. Based on the data collected from the Project partner municipalities, the total increase of the private sector investments is estimated at \$60,962,530. Some of the major investments were:

- Nectar food processing, Vladicin Han: \$7.6 million for expanding production
- Teklas Automotive, Vladicin Han: \$12.4 million of expected investment
- 7 Serbian companies in Leskovac: \$5.6 million of investments realized
- Ergomade (Denmark/Serbia), Aster Textile (Turkey) and TerenCons (Italy) – all in Nis: ~\$11 million

Component 2: Public Administration Reform

Task 2: Provide technical assistance to the national and local government counterparts in creating or modifying a minimum of nine (9) major laws, policies, and/or regulations related to public administration and finance, asset management, and area-based development.

Activity 2.1: Support the 32 target local governments in the local-level implementation of the newly adopted construction permitting law by providing training in how to adapt the local government's processes to the newly mandated one-stop-shop concept.

The new Law on Planning and Construction significantly speeds-up procedures for issuing new construction permits. One-Stop-Shops (OSS) for construction licenses, introduced by the Law, allow investors to communicate with only one public sector agency instead of contacting dozens of public enterprises and institutions. This vastly simplifies permitting procedures and allows investor operations to begin much quicker. The Law took effect in March 2015. SLDP participated, jointly with its partner cities and municipalities, by editing a large number of by-laws for the implementation of the Law on Planning and Construction. A network of the heads of urban and planning departments in SLDP partner local governments reviewed implementation of the by-laws and provided concrete suggestions for improvement and adjustment of the procedural rules to the needs and capacities of the smaller and under-developed municipalities.

SLDP supported the following policy activities during the reporting period:

- Law on Investments
- Decree on Criteria and Conditions for Support to Investments
- Decree on Amending Decree on Location Conditions
- Rulebook on Classification of Objects
- Rulebook on One-Stop-Shops
- Rulebook on Exchange of the Documents in One-Stop-Shop Procedure
- Rulebook on Technical Surveillance
- Law on Public Companies
- Draft Law on Public Utility Companies

Easier, more efficient, and cost effective permitting procedures resulted in increased employment in the construction industry (by 3.8%), production in cement industry (by 12.4%) and hours worked on construction sites (by 5.8%), all on the national level. Based on the World Bank's Doing Business Index for 2016, Serbia ranks at 139th place in dealing with construction permits, which constitutes a significant rise in comparison with previously published rankings (178th place in 2015). The main reasons behind this upgrade were the above-mentioned improvements to Serbia's business regulatory environment (construction permit reform) and the methodology changes in the World Bank's criteria. On a comparable scale, Serbia's overall Doing Business score went up from 65.25 last year to 68.41 this year. Serbia's improvement of 3.16 percentage points is among the top 15 in the world.

As of January 4, 2016, the online e-permitting system, located within the Agency for Business Registries, became fully operational and all applications for construction permits are submitted electronically. The system can be accessed through the websites of the Agency, the Ministry of Construction, Transport and Infrastructure and local self-governments. In the period January-March 2016, NALED organized trainings for more than 3,000 staff members of institutions, which are tasked with various responsibilities related to e-permits issuance. To assist the Project partner municipalities comply with these changes, SLDP's local construction permitting expert participated at the NALED's Training for Trainers (ToT) for facilitators of the introduction of e-Construction Permitting System in January 2016. Later on, she provided targeted assistance to the Project's partner

municipalities, such as Leskovac, Nis, Presevo and Bujanovac to solve several permitting implementation challenges.

On October 23, 2015 after difficult negotiations and several iterations, the National Assembly adopted the Law on Investments. In January 2016, the Ministry of Economy approached development partners that participated in the Law drafting process and asked for ideas and suggestions for drafting the by-law on investment attraction incentives. The Project, jointly with Standing Conference of the Cities and Municipalities (SCTM) and representatives of the the Agency for Local Economic Development in the City of Cacak, provided feedback for drafting of this by-law. A Decree on criteria and conditions for support to investments was adopted in March 2016 (Incentives Decree). It offers a new set of incentives to greenfield and brownfield investors, which are available for investment into the production sector and in export-oriented services. An investment in the production sector is eligible for incentives if a planned investment cost is no less than 150,000 - 600,000 EUR, and if the project creates at least 20 - 50 new, full-time jobs. The actual thresholds depend on the location of the project. The host municipalities are divided into four development categories, and the lower the development level indicator of the host municipality, the lower the investment and new employment requirements that qualify for incentives.

Activity 2.2: Assist the relevant national government counterparts, including the Ministry of Economy and the Ministry of Finance, to establish appropriate policies and mechanisms to support private sector growth by promoting the findings of the research on “Serbia’s Real Sector Performance: Exhibited Competitiveness by Industry, Size and Regions” conducted by the project, and by developing concrete policy recommendations based on these findings.

Based on results of the first research document “Serbia’s Real Sector Performance: Exhibited Competitiveness by Industry, Size and Regions”, supported by SLDP in October 2015, the Center for Advanced Economic Studies (CEVES) was engaged by Serbian Chamber of Commerce to develop a survey frame for annual performance monitoring of the production and export parameters for most competitive Serbian economic sectors. The survey's frame will be updated annually. Results of this annual survey will allow the Government of Serbia, SDA and Ministry of Economy to better understand external and internal factors that affect potential economic champions, to evaluate the effects of the tailored, macro-economic policies and to assess the direction in which sectorial interventions (both monetary and institutional) will be focused. In November 2015, CEVES presented the results of the competitiveness research as the part of the study “Development Potential Index of Tradable Sectors of Serbian Economy” to the national level stakeholders and representatives of the Serbian Chamber of Commerce.

The “Development Potential Index of Tradable Sectors of Serbian Economy” study emphasized the potential of furniture producers as “potential economic champions”. They already, albeit in a limited framework imposed by the small scale of production, export a large number of products to geographically diverse international markets, opening opportunity for growth and job expansion in the near future. In November 2015, the Project developed a policy document that outlines the direction of activities that could influence specific approaches to strengthen the competitive potential of the wood-processing sector, and in particular the sub-sector of solid wood furniture. The aim of support to this sector is to promote the competitiveness of Serbian exports and increase employment, especially in the mountainous and rural areas of Serbia that are rich in forests, which currently lag behind in development compared to other regions.

The Project unveiled its plans to assist the wood furniture sector at a roundtable at the Belgrade Furniture Fair in November 2015. Following this fair, Project representatives met with mayors and high level representatives of partner municipalities with large forested areas to gain their support, and begin planning for an Action Plan to grow the wood furniture sector. All high-level, local government representatives agreed to support increased commercialization of forests as a way of increasing employment in their rural communities. The initial concept points out Serbia’s forest resources as a competitive advantage. Once these Action Plans are created, its implementation will aim at increasing the volume and quality of exports, as well as employment in mountainous and rural regions of Serbia.

As already mentioned above, within Component One, the Forum "Positioning Serbia as a wood furniture sourcing country" was organized on March 3, 2016. With the support of the Project, EU Progres Program and Serbian Chamber of Commerce (PKS), political representatives of 46 local governments from the south-east and south-west Serbia formally agreed to actively participate in the revival of the production of solid wood furniture. SDA also expressed a willingness to help restart the wood processing industry and joined SLDP and Progres Program

in signing a Letter of Intent presented to the representatives of local governments at the Forum. Forum participants stressed the need to shift the focus from timber and other semi-finished wood to the final products, with high added value. Estimations presented at the Forum by a leading Serbian wood furniture expert outlined that if Serbia were to export final products, such as chairs, instead of lumber, approximately 5,300 new jobs could be created. In order to make this happen, government institutions should provide a favorable legal and financial environment for the sector companies that wish to increase their exports and create jobs. At the same time, public companies should ensure better, more efficient use of national wood resources, by giving priority to the manufacturers of export-oriented products, with the highest level of processing. In the coming months, with the support of the Project and the EU Progres, local authorities and businesses will develop an action plan to encompass short-term and long-term measures needed to improve the wood-processing production, increase exports and create new jobs.

Task 6: Provide technical and limited financial support to business advocacy organizations, think tanks and civil society organizations to assist in the formulation of multi-municipal development strategies and projects.

Activity 2.3: Build the capacity and sustainability of business associations. Improve the sustainability of the Association of Young Entrepreneurs of Serbia (AYES) by developing the management capacity of the organization and by helping them to improve their advocacy efforts and to increase their membership.



Goran Ocokoljic, "Vis Medic" selected as the best Serbian start-up, January 2016

The Project previously facilitated the establishment of the Association of Young Entrepreneurs in Serbia (AYES), a volunteer-driven, non-profit association whose mandate is to support young entrepreneurs. It was launched in order to encourage youth entrepreneurship and to help youth owned SMEs in the Project's eight IMC Areas. The association provides members with opportunities to learn from each other's experience and to benefit from the advantages of the network. In 2014, for the first time in Serbia, AYES, in association with Serbian Chambers of Commerce organized a "Ring Serbia" competition for the most innovative start-up project. The Global Get in the Ring competition (Gitr) has been held for six years in a row with 50 participating countries.

During this reporting period, the Project organized several preparatory meetings and developed a scope of work for a youth development specialist to provide assistance to AYES to successfully organize the competition. The Project assisted the eleven short-listed companies to prepare their investment pitches for "Ring Serbia 2016". These preparations consisted of lectures for the teams, followed by mentoring before a final presentation.

On January 12, 2016, the "Ring Serbia" competition took place. The title of the best went to "VisMedic" - an online clinic that allows patients to consult their doctors via Internet, through video, audio and chat links. With the support of Microsoft and a number of partners, a "boxing ring" was set up at the Serbian Chamber of Commerce, where 11 start-ups competed in different business categories. The winner, "VisMedic", will represent Serbia at the regional "Get in the Ring" contest in Sofia. The "Ring Serbia 2016" was held with the support of the Ministry of Youth and Sport, City of Belgrade, Serbian Chamber of Commerce, while Microsoft, ICT Hub and Link Group provided gifts for the contestants.

Task 8: Provide support and improve management skills of municipal officials to facilitate development project prioritization through active participation of key local/regional stakeholders representing public, private and non-government sectors.

Activity 2.4: Institutionalize the tenets and materials used in the project's Business Retention and Expansion (BRE) program by helping the Standing Conference of Towns and Municipalities to develop a new BRE module for their e-learning platform;

The e-learning platform, developed in 2014 through a Project grant to the SCTM, has become the SCTM's most commonly used methodological tool. The platform is operated by the SCTM Knowledge Center, which combines materials prepared during the implementation of partner programs and projects. The SCTM organized a needs assessment among member local governments and LED offices and it became clear that there was a large interest in an online course on Business Retention and Expansion (BRE). During the reporting period, several preparatory meetings were organized with the SCTM Knowledge Center on how to upgrade and transform Project developed BRE training materials to the online platform. The Project expects that almost all Serbian local governments will most likely participate in early 2016 because they have to be trained to implement the new Law on Investments, which envisages complex coordination of procedural stages and investors' requests at all levels of governance. In January 2016, financial assistance was provided to the SCTM to develop an online training program for BRE, and to assemble and update all training curricula. In addition, SCTM will develop a limited number of new training materials online courses. In March, SCTM assembled a group of experts for local economic development and started with development of the curricula. It is expected that in September or October 2016, Swedish SIDA will finance BRE training for all local governments in Serbia. The SCTM remains one of the strongest partners of the Project in both the policy arena and in strengthening LED Office capacities. The politically unbiased nature of SCTM's approach, its professionalism, and credibility justify these additional activities with the SCTM.

3. SIGNIFICANT CHALLENGES ENCOUNTERED AND ACTIONS TAKEN

Challenge: In the Nis-led IMC Area, the Project planned to support the creation of a drying center for the Nis Department of Agriculture (DARD). However, under the current General Urban Plan (GUP), building a manufacturing facility at the present designated location is explicitly prohibited.

Action taken: In June 2015, the project has pointed this out to DARD with a request to provide an affirmation, issued by a competent authority, stating that the conversion of the facility into a manufacturing plant will not be a problem despite the current GUP. The project sent a letter to DARD requesting immediate action and gave the department until the end of December 2015 to resolve the situation. At the time of reporting, such an affirmation has not been received. Without this document, the Project cannot legally equip the facility with the dryer, therefore the installation of the drying center is has been canceled. USAID and the Project notified DARD and the City that the Project would not be able to procure the drying equipment during the limited time left to the Project. It is anticipated that with the documentation and plans fully developed and ready, DARD can find an alternative means of financing the procurement of the equipment.

Challenge: The Serbianshoes.com website does not allow for interaction and management of the contents.

Action Taken: The Project assessed Serbianshoes.com web site and proposed an upgrade and redesign of the site, in order to ensure interaction between interested buyers and Serbian shoe producers. However, the level of funding required for the website redesign is higher than available resources. Without potential improvements the website can be used as an online leaflet, without features to manage content or ensure interaction. It served the purpose of promotion during GDS trade fairs, but it cannot be extended to the entire footwear industry in Serbia. The Serbian Chamber of Commerce and two associations of shoe producers, NP Shoes from Novi Pazar and Kostana from Vranje, are interested to take over the web domain and existing web content, and that will be one of the Project's final activities.

Challenge: The extent of planned training activities NALED will organize with all local governments in Serbia (and other stakeholders involved in e-construction permitting activities) rendered two planned trainings for Project cities and municipalities unnecessary and redundant.

Action Taken: The Project decided to find a niche where it would be possible to provide tailor-made assistance to smaller and underdeveloped partner municipalities to cope with permitting challenges, providing services to individual strategic investors, and to engage a local expert for e-construction permitting (a member of the core team within the Ministry) to assist local governments to properly implement the permitting system to serve the needs of strategic investors.

Challenge: The slow development of RAS continues to hamper the Project's efforts to achieve reform in the area of FDI policy, and slows development in SME policy.

Action Taken: The Project is going forward with its FDI work and SME work in a decentralized, bottom-up fashion, in the hope that developments will ultimately percolate upward into policy improvements once the national government's agencies become functional.

Challenge: The slow installation of the herb drying facility in Tutin makes it impossible for the Project to finance the drying equipment needed in that facility in the Project's remaining schedule.

Action Taken: The Project will continue to try to find alternative funding sources for Tutin's procurement of this equipment, though the city itself is beginning to discuss purchasing the equipment itself.

4. HIGHLIGHTS OF ACTIVITIES PLANNED FOR FY2016 Q3

Component 1:

- Develop the Action Plan in wood processing sector and furniture production subsector in cooperation with EU Progres Program and partner local governments.
- Organize presentation of wood furniture Action Plan recommendations to the Government of Serbia officials.
- Continue linking denim, footwear and furniture buyers with Serbian businesses.
- Organize B2B in metal sector.

Component 2:

- Assist SCTM to develop online-formatting for BRE training and assemble all training curricula to verify and update it;
- Assist underdeveloped Project partner municipalities to cope with permitting challenges in servicing of individual strategic investors.